

**PROPOSED PROGRAM
NEW PRODUCT DEVELOPMENT**

Prepared for:

Ms. Elizabeth Butson
Vice President
New Products Marketing
Philip Morris, Inc.
120 Park Avenue
New York, NY 10017

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SITUATION

Philip Morris USA is the leading marketer of cigarettes in the U.S. Its leading brand Marlboro, dominates the marketplace.

But the cigarette marketplace is in serious decline. Five factors contribute to the current industry-wide problem:

1. Society-wide pressure to eliminate smoking.
2. Laws, rules, and regulations designed to isolate smokers in designated smoking areas.
3. Rapidly escalating taxes which drive up the price of cigarettes until the product becomes unaffordable for many smokers.
4. The difficulty of keeping the category vital and emotionally alive without access to broadcast media.
5. The extraordinarily high costs of introducing new cigarette products.

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Price pressures and declining category unit volume present Philip Morris USA with two severe problems:

1. To continue unit growth in a sharply declining category.
2. To protect profit growth in the face of growing price and generic brands.

The purpose of this proposal is to provide the means for Philip Morris USA to grow both units and margins during the 1990's.

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MISSION

To develop the new product marketing strategy, marketing tactics and new products which will insure the profitable growth of Philip Morris USA in the 1990's.

PROJECT STRATEGY

To develop a minimum of 20 new cigarette products covering a broad range of refreshment, taste and satisfaction appeals, which can be evaluated for market potential during the Spring Quarter of 1991.

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PROJECT OBJECTIVES

1. To develop mass appeal cigarette products which will effectively appeal to the smoker who must deal with highly interrupted smoking conditions.
2. To create mass appeal cigarettes which will attract the occasional smoker more effectively than current competitive brands.
3. To create new cigarette brands which will effectively capture the franchises of the leading competitive cigarette brands.
4. To develop high margin brands which will accommodate the rapidly developing price tiers in the market.
5. To create new brands which will increase Philip Morris USA unit volume during the next ten years.
6. To create new brands which substantially enhance the profitability of Philip Morris USA during the 1990's.
7. To develop products which enhance the overall image of Philip Morris USA.

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PROJECT METHODOLOGY

Project objectives will be attained through the accomplishment of two intermediate goals. These are:

1. Development of a Creative Market Structure for cigarettes. This would indicate what the market is today and where the future vulnerabilities and opportunities will be.
2. Creation of Critical Mass Concepts which describe the strategies, tactics and marketing actions needed to make each concept successful.

The remainder of the proposal deals with the techniques needed to develop the Creative Market Structure and the Critical Mass Concepts which are the underpinnings for the Strategic Plan and the marketing actions needed to make it work effectively.

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CREATIVE MARKET STRUCTURE DISCOVERY TECHNIQUES

We employ five basic, independent techniques in discovering future market structures.

1. TREND ANALYSIS. There is no present - only a past and future. We examine trends which help project future consumer consumption patterns. These future consumption patterns will help delineate future market structures. For example, there are many trends influencing the future cigarette market structure. These include the trends to health, to indulgence, to personal appearance, to time pressure, to career pressure, to home centering, to economic difficulties, to nostalgia, etc. We will examine the substantial trends information in our data base as well as smoking trends information maintained by you. From this examination will emerge the rough outlines of the potential future cigarette market structure.
2. COMPETITIVE PRODUCTS ANALYSIS. We will study several competitive brands which have developed large-volume sales which have endured over time. Because all product forms are rich in precedents, the strengths and weaknesses of several will be important and instructive in developing the future market structure for cigarettes. Patterns will emerge.

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3. RESEARCH INTERPRETATION. All clients have conducted substantial research into their products, markets and consumers. Each individual project was designed to answer specific questions. But each project also contains a wealth of information for new strategies and tactics which has not been usefully searched, analyzed, and interpreted. For example, research designed to elicit attitudes toward foods held by the over-50 markets contained valuable information on new product opportunities based on textures. (A discussion of textures did not even appear.) Now such products are rapidly becoming the industry's standard for new products activity.
4. FAANG ANALYSIS AND DISCOVERY. FAANG stands for Fear, Anger, Aspiration, Need and Greed. The FAANG process uses Howard International and consumers acting jointly to generate new brand and new structure opportunities. We will construct a major FAANG list which will include all concerns about cigarette products. We then identify new strategies and tactics which solve individual issues produced by the list. After that, we prioritize those ideas according to concepts which solve the largest number of issues and those which solve one big important issue. The most promising are used to create added opportunities in the Creative Market Structure. For example, the fears concerning "germs" led to a new box in the bar soap market structure: Deodorant soaps. Fears about Cadillac quality and anger at prestige loss in downsized Cadillacs led to the Lincoln "land yacht" opportunity.

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5. THE UNIVERSAL STRATEGIC IMAGE (USIT). USIT provides a framework for determining potential new products according to past human behavior. According to USIT, successful consumer products have been built with imagery centering on two or three of seven basic areas. These are:

- Looks Good (attractiveness)
- Feels Good (texture)
- Tastes Good (performance)
- Made Good (quality)
- Priced Good (price value)
- Good for You (health)
- Good Personality (brand personality traits)

For example, Tylenol built a powerful image based on "Looks Good," "Works Good," and "Good for You." It defeated aspirin-based analgesics on the "Good for You" (stomach bleeding) issue. When Datril was introduced as "Works like Tylenol but costs 30 percent less," it failed to achieve important market share because its image was based solely on "Priced Good."

Kellogg's has been the dominant force in cereals because it has religiously stuck with three cornerstones for its traditional brands (Tastes Good, Priced Good, and Good Personality). Its newer "Good for You" brands such as Nutrigrain have been far less successful.

The attached USIT diagram demonstrates the cornerstones for other products. The USIT technique will allow us to determine every potential product and product position for maximizing the potential of new cigarette products for Philip Morris USA.

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UNIVERSAL STRATEGIC IMAGE TRACK

B R A N D S							
CRITERION	TYLENOL	KELLOGG'S	DIAL	FTD FLOWERS	AMANA REFRIGERATORS	LINCOLN CONTINENTAL	IBM WORKSTATIONS
LOOKS GOOD	X			X		X	
FEELS GOOD						X	
WORKS/TASTES GOOD	X	X	X		X		
MADE GOOD	X			X	X	X	
PRICED GOOD		X					
GOOD FOR YOU							
GOOD PERSONALITY		X	X	X			

CRITICAL MASS CONCEPTS

The Creative Market Structure tells us where the opportunities are. We select the areas of greatest near-term opportunity for major volume from the market structure chart. We then employ our Home Run Discovery System to develop Critical Mass Concepts for each opportunity. Each critical mass concept includes:

<u>ISSUE</u>	<u>EXAMPLE</u>
Brand Name	Lincoln Town Car
Consumer Concept	Traditional, Distinctive, Expensive Land Yacht
Corporate Concept	The Brooks Brothers of automobiles
Market	Male, 50 and older
Business Precedent	Brooks Brothers, Budweiser
USIT	Looks Good, Feels Good, Good Personality
Vulnerable Brands	Cadillac
Emotional Basis	Cadillac franchise Fears, Angers, Aspirations, Needs and Greeds
Pricing	From \$18,000 to \$25,000
Marketing Actions	Limo market domination Dealers displaying Cadillacs and Lincolns Valet Commercial
Future design direction	1978 Lincoln Town Car is to Cutlass Supreme as 1990 Lincoln Town Car is to Taurus

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HOME RUN DISCOVERY TECHNIQUES

We will use seven basic, independent techniques in our search for new cigarette product strategies, tactics and marketing actions.

1. ANALOGY METHOD. This is our most productive technique and was developed more than thirty years ago. It brings you a business perspective that crosses industry lines and shows you that your marketing problems have already been solved by someone in another industry. This technique showed a struggling and discouraged cereal maker that its problems and opportunities had already been explored by a major toy company. By becoming Big G, "The toy company of the cereal business," General Mills hit on "Frankenberry," "Count Chocula," "Frosty O's," "Lucky Charms," and "Honey Nut Cheerios" and moved from a declining number three to an unchallenged number two in its industry. The secret power in this technique is the ability to move your perspective beyond the dots of your industry so as to find analogies to your problems and their solutions in other industries. Analogy Method, although essentially analytical, provides an unusually tight, accurate blueprint for new products.
2. ARTILLERY SPOTTING. This is a technique which achieves our highest marks in reliability. Artillery Spotting searches your business for Home Run anomalies which are happening on a small, and therefore unnoticed, scale. We used this technique for a company making an obscure, specialty disinfectant. We discovered some consumers in narrow geographic areas who were using volumes which were seven or eight times the national averages. We found that these intense users had "repositioned" the product from a specialty disinfectant into a high volume, general use, household cleaner! It was then simply a matter of "corporatizing" the anomaly and relaunching the product as a cleaner. Within three years, Pine-Sol emerged as the leading household cleaner and commanded much higher prices and wider margins while offering lesser trade terms. Artillery Spotting is extremely reliable and cost effective because it discovers that someone is already hitting your Home Run for you.

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3. COMPETITIVE PROCESS OBSERVATION. This has long been a favorite technique of Japanese marketers who believe that volume comes not from the market place but from your competitors. We have adapted this technique and recently used it on behalf of a coffee roaster who had always competed in the "central taste" segment. This technique showed that we could defeat the industry leader by launching an "old brand" into the faster growing "extra flavor" segment. The client acted drew heavy market share from Folgers with Rich French Roast and Colombian Supreme.
4. HOMELY TWIN ANALYSIS. When the images of two competing products become viewed as highly similar, one develops "Homely Twin Syndrome." Even though the lesser product may be almost perfectly equal, the consumer will abandon the homely twin in favor of the attractive twin. Datril was almost the same thing as Tylenol, but achieved only a minor place in the business. We have a list of well over one hundred homely twin failures which have occurred over the last ten years. We have also used this technique in reverse. That is, we have made homely twins out of our clients' competitors. A new cigarette strategy which solves a major consumer issue would have the opportunity of making homely twins of its near-in competitive brands.
5. POGO ANALYSIS. When all is said and done, sometimes, like POGO, "We have met the enemy and it is us." We have discovered many troubled brands which were failing because of a strategy or execution flaw. By correcting the flaw, we can reestablish the brand's potential. Post Super Golden Crisp was rapidly dying until we restored Sugar Bear which had been eliminated four years before. The brand quickly regained its former market share.

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6. SUCCESS STREAM ANALYSIS. We have discovered over 700 Major Success Streams which can carry products from adequate performance to major success. Some of our Major Success Streams go back more than a century. Our first project involved the repackaging and relaunching of an obscure department store soap containing hexachlorophene. The client's vision was specialty sales through supermarkets. But we identified a Major Success Stream called "Kills the germs that cause odor," which was created by Listerine in 1872. The stream was so powerful it allowed Listerine to dominate the mouthwash industry for over a century. We simply launched the new bar soap into the "Listerine" stream. Instead of a profitable specialty soap, the company found itself with Dial.
7. WARFARE METHOD. Our newest technique develops Home Run strategies, tactics, and products through the use of industry-wide image data bases. The Warfare Method pits car brands and products against each potential competitor in the business, against the market segment, and against the market as a whole. This computer-driven approach develops strategies with the maximum Home Run potential during very short periods of time. We applied this technique across industries in a major instance when our client's main competitive threat was coming from outside its industry. This technique allowed our client to rebuff a much more powerful company and go on to dominate competition. Today, Florist Transworld Delivery (FTD) has 75 percent share of the market.

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OUTPUT, TIME AND COSTS

1. We will develop a minimum of twenty products for evaluation during the Spring Quarter of 1991. Each product concept will include:

- Product description or prototype
- Written and illustrated concept
- Consumer target
- Packaging directions
- Distribution
- Image precedent
- Consumer appeals or barriers
- Supporting trends
- Business precedents
- Universal Strategic Image Track (USIT) target
- Supporting research

2. Consumer feedback will be obtained by exposing products and intermediate concepts to focus group interviews. Between 6 and 8 groups will be employed.

3. The product development effort will entail five months' effort and will be completed prior to the end of March. Focus group interviews will be completed by April 1. Final recommendations will be made by April 15, 1991.

Total project costs are expected as follows:

Product Development	\$125,000
Focus Group Interviews	<u>25,000</u>
Total project costs:	\$150,000

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